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SUBJECT: LEBANON: PROMISES, BUT NO FIRM COMMITMENTS, FOR EGYPTIAN
ELECTRICITY, IRAQI OIL (ECONOMIC WEEK IN REVIEW, AUGUST 18 - 24,
2008)

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IRAQ WILLING TO SELL OIL TO
LEBANON AT PREFERENTIAL PRICES

¶1. (SBU) During his visit to Baghdad on August 20, PM Siniora discussed reinforcing bilateral economic ties with Iraq. Iraq has long been one of Lebanon's major export markets, but it has exported only a trickle of goods to Lebanon in recent years, and no oil. Daily An Nahar reported that during the visit, Iraqi PM Nuri al-Maliki told PM Siniora that Iraq is willing to sell oil to Lebanon at preferential prices, whether by sea, land or pipeline. While the existing pipeline needs only minor repairs, the pumping station on the Iraqi-Syrian border was hit by a U.S. airstrike during the war and will require at least six months to rebuild, a senior Lebanese Energy Ministry source told us.

EGYPT OFFERS TO SELL LEBANON ELECTRICITY
AND GAS AT HIGH PRICES

¶2. (SBU) Minister of Energy and Water Alain Tabourian failed to improve the Egyptian offer to supply Lebanon with electricity and gas during his meeting with Egyptian Ministers of Electricity and Gas on August 16 in Alexandria, Tabourian's advisor told us. He said Tabourian asked the Egyptians to sell Lebanon electricity at the same price as they sell it to Egyptian industries, i.e., with no subsidy, while Egypt asked for much higher prices. Egypt also offered Lebanon natural gas at a higher price than what it charges neighboring countries. The Egyptian Minister of Electricity will be meeting with Tabourian and his regional counterparts in Jordan on August 26-27 to discuss details regarding the supply of Egyptian electricity to Lebanon, Syria, and Jordan. Lebanon needs to purchase electricity to reduce power cuts, Tabourian's advisor remarked.

PUBLIC DEBT OVER \$44
BILLION BY END OF JUNE

13. (U) According to the latest figures from the Ministry of Finance (MOF), gross public debt reached \$44.4 billion at the end of June 2008, representing an eight percent increase compared to the end of 2007. Local currency debt rose by 10.5 percent, to around \$23 billion, while foreign currency debt increased by 5.4 percent to \$21.4 billion. Public debt stood at 173 percent of GDP.

CENTRAL BANK GROSS FOREIGN CURRENCY
ASSETS REACH RECORD HIGH

14. (U) The Central Bank of Lebanon (CBL) balance sheet for mid-August 2008 showed a record high \$16.9 billion in gross foreign currency assets. This positive trend is expected to continue as the CBL remains the largest buyer of surplus dollars in the market.

15. (SBU) Meanwhile, a senior banking source at Audi Bank told us the CBL also has recorded a small, positive net foreign currency assets position, estimated at approximately \$50 million in mid-August 2008, for the first time since mid-2006, when CBL interventions in the foreign exchange market to maintain currency stability drained its foreign currency reserves. (Note: Audi Bank's estimate does not take into account \$1.5 billion in Arab deposits at the CBL, which are considered as long term deposits to support CBL foreign currency reserves. End note.)

BALANCE OF PAYMENTS POSTS \$83 MILLION

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SURPLUS IN FIRST HALF OF 2008

16. (U) According to the CBL, Lebanon's balance of payments posted a cumulative surplus of \$83 million in the first half of 2008, compared to a deficit of \$207 million in the first half of 2007. The cumulative surplus was attributed to a \$2.62 billion increase in CBL's net foreign assets, combined with a \$2.54 billion decrease in those of banks and financial institutions.

LEBANON REMAINS TOP HOLDER OF
GOLD AMONG ARAB COUNTRIES

17. (U) Pro-opposition daily Al Akhbar on August 18 quoted the World Gold Council as stating that Lebanon remained on top of the list of Arab countries in terms of gold reserves. Lebanon was estimated to have around 9.2 million ounces of gold valued at around \$7.5 billion.

INWARD REMITTANCES REACH
22.3 PERCENT OF GDP IN 2007

18. (U) According to the World Bank's 2008 "Migration and Remittances Factbook," Lebanon had the highest share of remittances as a percentage of GDP (22.3 percent) in the region. Remittances are an important source of external funding for the Lebanese economy, as they constitute a large portion of investments in the country, the report said. The flow of inward remittances to Lebanon reached \$5.5 billion in 2007, up by 6.2 percent in 2006. The value of Lebanon's remittances ranked 16 out of 192 countries worldwide included in the survey. Out of 14 MENA countries, Lebanon ranked third in terms of remittances received or 19.3 percent of inward remittances into the region.

TRAVEL AND TOURISM BOOST ECONOMY
AND EMPLOYMENT IN 2008

19. (U) The World Travel and Tourism Council (WTTC) estimated that the travel and tourism (T&T) industry would contribute directly

\$1.36 billion to the Lebanese economy in 2008, or 5.7 percent of GDP. As a result, direct industry employment will reach 80,000 or 5.9 percent of total employment in 2008. Given that T&T touches all economic sectors, its real direct and indirect impact is forecasted to generate \$4.43 billion or 18.7 percent of overall economic activity in Lebanon in 2008, as well as 252,000 jobs, representing 18.4 percent of total employment in 2008.

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